

Cheshire & Warrington Economic Review and Forecasts

A Final Executive Summary to CWEA and NWDA

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Contents

Executive Summary 1

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Executive Summary

Introduction

Cheshire & Warrington is one of the most successful sub-regions in the UK. Gross Value Added (GVA) per capita has consistently stood higher than the UK average, household earnings have been high, the population is highly skilled and unemployment is low. In addition, the natural environment combined with such factors as high educational attainment mean that Cheshire & Warrington is a place where people want to live, and where residents enjoy a high quality of life.

But such success is never guaranteed. Recent growth in GVA per head has lagged that of the UK, and proposed job losses from some of the sub-region's most successful businesses show that success is something that is built, and continually needs building upon.

In October 2004, the Cheshire & Warrington Economic Alliance (CWEA), the sub-regional partnership for Cheshire & Warrington published "*Investing in Success*", the sub-regional economic strategy for Cheshire & Warrington. The strategy acknowledged the success of Cheshire & Warrington, and provided a framework for maintaining that success for the years to come.

Now, three years on, there is a need to review *Investing in Success* and ensure that it continues to respond to the critical issues being faced, and the potential opportunities that present themselves. This Economic Review and Forecast report therefore is designed to provide the evidence with which the CWEA, and partners, can refresh *Investing in Success* and

meet the needs of today. The report itself was commissioned jointly by CWEA and the North West Development Agency (NWDA). It therefore not only aims to meet the needs of the sub-region, but recognises the role Cheshire & Warrington plays within the North West, and the North as a whole, as a key driver of economic growth.

Messages from the data

Headline indicators

GVA per head, a measure of wealth in the economy, in 2004 stood at £17,650 in the Cheshire County Council area and £19,800 in the Halton & Warrington area¹ - both above the UK figure (£17,450) and well above the North West average (£15,000). However, although Halton & Warrington's and performance has been strong throughout the period from 1994 (between 10% and 15% better than the UK), the figure for the Cheshire County Council area has declined from being the highest in the North West in 1994 (16% above the UK) to being just 3% above the UK figure in 2004. With regard to adjacent economies, Greater Manchester South has seen rapid GVA per head growth and has surpassed the Cheshire CC and Halton & Warrington to be the best performing NUTS3 area in the North West.

Gross disposable household income in Cheshire, however, continues to be well above the averages for other North West sub-regions and continues to increase at a rate greater than that for the UK. Cheshire residents are becoming increasingly affluent, and the sub-region continues to attract people by offering a high quality of life.

¹ Halton is included within the NUTS3 area with Warrington.

Demographics

The population of Cheshire & Warrington has risen by 8% since 1981 compared with 1.4% growth in the North West and 6.7% in Great Britain. Highest growth was in Congleton, Crewe & Nantwich, Vale Royal and Warrington, while there was actually a decline in the population of Ellesmere Port & Neston.

Migration flows into Cheshire & Warrington have increased over recent years with particular districts attracting considerable flows from both within the UK and internationally. Crewe & Nantwich has been the most notable destination for both migrants from within the UK and migrants from overseas. Migration into the sub-region has generally been to those locations where growth in the number of jobs has been greatest.

Of notable concern is the declining proportion of the Cheshire & Warrington population who are of working age and in particular, the notably low (and declining) proportion of the population aged 20-39 – there has been a 12% reduction in this age group since 1995, with the issue particularly notable in the Cheshire County Council area.

Commuting flows

Overall, over 70% of workers both live and work within the sub-region, and there is a modest net inflow of workers (5,900)². The pattern varies considerably between districts, however, with Congleton and Vale Royal exhibiting net outflows of over 10,000 movements and Chester and Warrington exhibiting net inflows of over 10,000 movements. Chester has a strong relationship with North Wales (attracting workers into Chester),

² Based on 2001 census data – it is likely that there will have been changes to flow dynamics since the data was recorded.

while there are notable movements to Manchester and Stockport from the eastern parts of the sub-region.

Housing

House prices in Cheshire & Warrington are generally high, with average prices in 2006 close to the £200,000 level and on a par with the average price nationally. Affordability is therefore an issue with prices in Cheshire & Warrington being more than 25% above the North West average, while the ratio of average earnings to average house prices shows that it is becoming increasingly difficult to purchase a home.

The supply of housing (new builds) varies across the sub-region. In 2005/06 over 50 new builds per 10,000 population were completed in Warrington and in Crewe & Nantwich but just 18 in Chester and in Vale Royal. Nationally (in England), house building completions stood at 32.4 per 10,000 population.

Employment and industry structure

Job growth within Cheshire & Warrington has been markedly strong, with 26,100 jobs created since 2000. Crewe & Nantwich (6,800 jobs), and Warrington (5,000 jobs) saw the highest growth, while Congleton (800 jobs) saw the lowest growth. All districts in the sub-region experienced job growth at or above the Great Britain level between 2000 and 2005, apart from Vale Royal and Congleton.

The number of jobs within Cheshire & Warrington has supported high levels of economic activity within the labour market. Activity levels are comfortably above the North West and Great Britain averages, except in

Ellesmere Port & Neston where there is a particular issue with economic activity amongst 16-24 year olds.

Employment in public sector occupations is relatively low in Cheshire & Warrington, while employment in the service sector has grown more rapidly than in the North West and Great Britain since the mid-1980s. The representation of service sectors within the economy (based on employees within each sector) is broadly in line with the UK (within ± 0.5 of a location quotient³). The sub-region however has a considerable specialism in a number of manufacturing sectors – pharmaceuticals, the manufacturing of fuels, water supply, and motor vehicles – all key sectors for the sub-regional economy, with pharmaceuticals in particular having witnessed considerable growth since 2000.

As recognised in *Investing in Success*, one of Cheshire & Warrington's most significant assets is the knowledge base within the sub-region's businesses. The sub-region continues to have a higher proportion of employment (12%) in knowledge intensive businesses (KIBs) than the North West (9%) and Great Britain (10%). Similarly, the sub-region has a higher proportion of workers in higher end occupational classifications – a trend that has grown above the rate for Great Britain in all districts except Crewe & Nantwich and Ellesmere Port & Neston.

Earnings

Workplace earnings (those wages paid by businesses located in Cheshire & Warrington) have tended, overall, to stay relatively closely to the

³ A location quotient gives an indication of the relative concentration of sectors in Cheshire & Warrington compared with a comparator – in this case, the UK. A location quotient of 1 shows an equivalent share of employment in a sector to that in the UK.

national average. However, there is some evidence of earnings in Chester and Vale Royal lagging significantly behind UK growth since 2002.

Residence based earnings (i.e. the money earned by people living in Cheshire & Warrington) present a different picture. Weekly median gross full time earnings in the Cheshire County Council area in 2006 stood at £480. The figure in Warrington mirrored that of Great Britain (just under £450) while the North West figure stood at just £420. The difference between workplace and residence based earnings in Cheshire reflects the presence of high-earners who work outside of Cheshire but who choose to live in the county.

Productivity

Productivity measures the level of GVA output per worker in the economy. The general trend sees GVA per worker rising over time with productivity being considerably higher in Cheshire & Warrington compared with other North West sub-regions. Obviously, the sectoral mix of an economy influences the overall level of productivity. The pharmaceuticals sector, which is very highly represented within the economy has high levels of productivity and witnessed productivity growth between 2000 and 2005 - as have other sectors, such as computing services.

Increasing productivity and raising GVA per worker is a key policy objective of the UK Government, and *skills, investment, competition, innovation and enterprise* have been identified as key 'drivers of productivity' in which the UK must improve.

Skills

Cheshire & Warrington has a highly qualified working age population. In 2005/06 over 31% were qualified to NVQ Level 4 or above, with only around 13% having no qualifications. These figures out-perform all North West sub-regions and the national comparator. Importantly, the growth in population with NVQ Level 4+ (5 percentage points between 2000 and 2005 in Cheshire & Warrington) is well above the national rate of growth (3.2pp) and is driven by very considerable growth in Congleton (13pp), Vale Royal (9pp) and Macclesfield (8pp). Of concern, however, are Chester and Crewe & Nantwich where the proportion with NVQ4+ actually dropped.

In addition to overall qualification levels, Cheshire & Warrington contains some of the best performing districts nationally in terms of GCSE attainment, while a low proportion of 16-19 year olds are not in employment, education or training (NEET). Despite all of these areas of strong performance, and possibly because overall employment levels are high and the labour market is tight, there are emergent skills shortages in the sub-region – particularly in specialist areas of expertise and in ‘softer’ inter-personal skills.

Investment

Capital investment in businesses acts as a key stimulant to improvements in productivity. Businesses in Cheshire & Warrington invest more, per employee, than those located in the North West and the UK. UK owned firms in Cheshire & Warrington generally make higher capital investments than UK firms in the North West and UK. Similarly, foreign owned firms are showing a trend of investing considerably more in Cheshire & Warrington per employee than in the North West and UK.

Rising levels of investment are also reflected in increases in construction activity within the sub-region, while levels of previously developed land have declined. Nonetheless, the sub-region still contains 1,800 hectares of previously developed land that could be developed.

Competition

Data on the levels of competition faced by businesses in Cheshire & Warrington is not readily available. One proxy measure, however, is the proportion of employment in foreign-owned businesses (which, by definition, are owned by groups operating in international markets).

The proportion of employment in foreign-owned firms has shown substantial growth – from 10% in 2000 to 15% in 2004; this is broadly in line with the national average, but has been consistently rather higher than the North West average (13% in 2004).

Innovation

Cheshire & Warrington businesses are more likely to utilise IT and computing systems than businesses in the North West or any of the North West’s sub-regions, while the take-up of broadband has also been relatively high.

At a headline level, the sub-region continues to demonstrate very high levels of research and development (R&D) expenditure compared to the North West and Great Britain. However, the research suggests that this is heavily skewed by the presence of AstraZeneca; if that firm’s R&D were to be excluded, the average R&D spend per adult would be below that for the North West and the UK.

Enterprise

Cheshire & Warrington is an enterprising place – VAT registration rates are 4 and 11 percentage points above the Great Britain and North West figures respectively. In 2005, 53 businesses per 10,000 population were registered within the sub-region. Indeed, growth in registrations between 2000 and 2005 was above the Great Britain rate in all districts except Vale Royal. This has led to a considerable net increase in the number of businesses within the economy (nearly 20% since 1994), while business survival rates are also good.

Deprivation

Cheshire & Warrington has ‘pockets’ of deprivation, but deprivation across the sub-region is generally low. Only 3.5% of the sub-region’s Super Output Areas (SOAs) are amongst England’s most deprived 10%.

Unemployment is generally low in Cheshire & Warrington and is below the Great Britain figure in all districts, but the sub-region does have a number of local area concentrations of high incapacity benefit (IB) claimants.

Looking forward: forecasting economic performance

Recent historical GVA growth

According to recent data, Cheshire & Warrington underperformed the North West and UK in terms of GVA growth over 2000-04, a turnaround from the previous two decades.

Growth is also estimated to have been faster in Merseyside and Greater Manchester over this period.

The relatively weak GVA performance in Cheshire & Warrington over 2000-04 was mainly due to slower growth in manufacturing industries, such as manufactured fuels, other transport equipment, chemicals, food, drink & tobacco, rubber & plastics and mechanical engineering, due to slower productivity growth in these industries.

Some service sectors, such as professional services, education and miscellaneous services, also saw slower relative growth than in the North West and UK, although only professional services is estimated to have seen slower productivity growth, with education and miscellaneous services seeing falls in employment.

Pharmaceuticals made a very strong positive contribution to GVA in the sub-region over this period (2000-04).

The forecast

The recent relative underperformance of the Cheshire & Warrington economy compared to the North West as a whole is expected to be a short term phenomenon, and the outlook is that the trend growth within the sub-region will again be faster than for the North West as whole (2½% p.a. vs. 2¼% p.a.). However, much depends on the prospects for key sectors, and in particular pharmaceuticals. The relative performance of the sub-region will be weaker than was seen during the second half of the 1990s.

However, the growth underperformance relative to the UK economy is expected to persist, though the extent of the underperformance is likely to be less than has been seen since 2000.

Despite the improvement in relative growth prospects, employment in Cheshire & Warrington, which has lagged growth in the North West in recent years, is only expected to grow at a similar rate to the North West average in the long term (½% p.a.), slightly slower than the UK average.

The sub-region's population grew by a little more than 10% over 1990-2005. The outlook is that future growth will average 0.2-0.3% p.a. This is a similar rate of growth to that forecast by CE for the North West as a whole, but slower than for the UK.

While the total population in the sub-region is expected to rise, the age profile is such that the working age population is expected to fall modestly. This in turn could hold back economic growth.

The implication of the forecast is that the gap in GVA per capita between Cheshire & Warrington and the UK, which has narrowed in recent years as GVA growth slowed in the sub-region, will widen once again, albeit modestly.

There is uncertainty over the extent to which a forecasted decline in the working-age population will hold back economic growth. One impact could be an increase in commuting from neighbouring areas.

The Cheshire & Warrington economy is expected to benefit from strong GVA growth in manufacturing, as well as services, although strong productivity growth means that employment in manufacturing in the sub-region is expected to continue falling in the long term, albeit not as strongly as in the 1980s or 1990s.

Within services, the strongest GVA growth is expected in communications, computing services, professional services and non-financial business services. These are also the sectors where strong job

growth is expected, although large sectors such as retailing and health & social work are expected to see fairly large absolute increases in employment.

Key sectors in the forecast

The long-term prospects for banking & finance, computing services and professional services in Cheshire & Warrington are all dependent to some extent on the success of Omega. In the medium to long term, the site is expected to increase the attractiveness of the sub-region to firms within these industries.

Prospects for retailing, the largest industry in Cheshire & Warrington in terms of employment, are for growth slightly slower than the North West as a whole in the long term, as relatively strong growth is expected in the larger shopping areas of Liverpool and Manchester.

Growth in hotels & catering is expected to be similar to the North West average, but still some way behind the UK average.

Pharmaceuticals accounts for just over 6% of employment in Cheshire & Warrington (all in Cheshire). GVA growth is expected to be strong in the long term, although not as fast as in the North West or UK as a whole, and employment is expected to fall at a somewhat faster rate than in the North West and UK.

The importance of pharmaceuticals to the Cheshire & Warrington economy is such that the outturn for this industry could be a deciding factor in whether the Cheshire & Warrington economy does actually outperform the North West or not in the long term.

SWOT

Based on the evidence reviewed and analysed, the following strengths, weaknesses, opportunities and threats have been identified:

Strengths

- High quality of life
- Proximity to Manchester and Liverpool
- Affluent residents
- Well-qualified residents
- A diverse economy
- Good external connections
- High proportion of employment in knowledge intensive businesses
- High levels of engagement in economic activity
- Strong growth in business stock built on high levels of entrepreneurship

Weaknesses

- Relatively slow GVA growth in recent years
- Decline of some important high productivity sectors
- Flat workplace-based earnings growth in some districts

- Declining numbers of young adults
- Emerging skills shortages
- Pockets of severe deprivation
- Lack of a focal point
- Difficulties in deliverability of bringing land into use
- Poor internal connections

Opportunities

- Strengthening Cheshire & Warrington's position in high value added service sectors
- Exploiting previously developed land
- Benefiting from the renaissance of Manchester and Liverpool
- Harnessing the economic contribution of inward migrants
- Benefiting from the development of the University of Chester
- Using changing demographics to the sub-region's advantage
- Creating local employment opportunities for outward commuters

Threats

- Pressure on the pharmaceuticals sector - employment and GVA

- Ongoing pressures on other manufacturing sectors and the risks of ‘shocks’ to the economy
- Threat of re-location/offshoring of high GVA service sector jobs
- Housing pressures leading to worsening skills shortages
- Risk of mid Cheshire becoming a dormitory economy
- Risks associated with success
- Failures to spread benefits of strong economic performance

Identified priorities for the sub-region

Based on the SWOT assessment, a number of key potential priorities have been proposed for consideration by CWEA and wider partners. These are shown in Table 1.

Table 1: Potential future priorities

- Strengthening Cheshire & Warrington’s position in value added service sectors
- Mitigating the impact of, and realising the opportunities from, demographic change
- Mitigating the risks of contraction in high value manufacturing
- Addressing the shortage of appropriate and affordable housing
- Maintaining a high quality of life and sense of place, to maintain the sub-region’s attractiveness as a place to live, work, study and visit
- Creating local employment opportunities for outward commuters
- Exploiting and bringing forward previously developed land
- Addressing flat income growth in Chester and Vale Royal

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- Responding to pockets of severe deprivation
 - Preventing a dormitory economy developing in mid Cheshire
 - Harnessing the benefits of inward migration
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These proposed priorities are not intended to be prescriptive, but they provide an indication of the areas CWEA may wish to consider and respond to. In the meantime, we have used them as the basis for our appraisal of portfolio of current interventions included within the *Investing in Success* Action Plan.

Appraising current investment plans

Thirteen set of intervention were identified from the *Investing in Success* Action Plan, and these have been appraised in two ways:

- Each project, and the resources allocated to them, has been mapped in terms of the extent to which it supports higher productivity employment vs lower productivity employment, and the extent to which it is focused on deprived communities.
- Each project has been appraised in terms of its likely contribution towards each of the potential priorities that emerged from the SWOT assessment.

Conclusions of the appraisal process

Our key conclusions on the current portfolio of interventions are as follows:

- There is a considerable amount of projected NWDA expenditure in projects which are associated with relatively low productivity employment and which are not particularly responding to the needs of deprived areas. While such projects may add value in other ways, **CWEA should consider whether the portfolio is too heavily weighted towards visitor economy initiatives.**
- The portfolio of interventions appears to lack any initiative which is strongly focused on high GVA per employee economic activity. **CWEA should consider whether enough is being done to ensure that the sub-region remains attractive to current and potential future employers in the highest productivity sectors.**
- While the current portfolio of interventions appears to be addressing the ‘pockets of severe deprivation’ and ‘quality-of-life/sense of place’ priorities reasonably well, the portfolio did not appear to be contributing much towards the ‘affordable housing’ and ‘benefits of inward migration’ priorities. **CWEA should consider whether it agrees with our proposed priorities, and, if so, whether there is a need to strengthen the portfolio’s response to those priorities that currently appear to be under-addressed.**